



Western
Area Power
Administration

Parker-Davis Project

Fiscal Year 2017 Rates & Charges

June 16, 2016

Scott Lund
Rates Manager

Agenda

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FY 2016 Ratemaking Summary

Generation Charges

Generation costs increased 3% and carryover decreased 31% resulting in an 8% increase to the composite generation charge

Transmission Charges

Transmission costs were stable, but sales decreased 11% and carryover decreased 31%

We reduced a 16% transmission charge increase to 5% by deferring the FY16 principal payment to future years



Standard Ratemaking Parameters

- Actual work plans are used for O&M expenses when available. Work plans are escalated for inflation in remaining years of cost evaluation period (rate window)
- Ten-Year Plan information from Western and Reclamation is used to project capital costs
- Costs not readily identified as generation or transmission are allocated via the Cost Apportionment Study
- Transmission and generation sales projections are based on contractual values



Purchase Power (Generation)

Purchase power projections are lower than recent actual expenses:

Year	Expenses
2011	\$1.0m
2012	\$1.0m
2013	\$3.8m
2014	\$3.3m
2015	\$5.2m
2016 (Rate)	\$1.0m



Purchase Power (Generation)

- Purchase power is difficult to project given the volatility of hydrology and energy pricing
- We take a minimal approach with projections to prevent adverse rate impacts
- While we will continue with the minimal approach, we need to increase our projections
- Balance the need for cost recovery with preventing a sudden increase in costs



Purchase Power (Generation)

Increase purchase power projections by \$340k per year until \$3m in FY 2022:

	2017	2018	2019	2020	2021	2022
Annual PPW	\$1.3m	\$1.7m	\$2.0m	\$2.4m	\$2.7m	\$3.0m
5-Yr Avg in Rate	\$2.0m	\$2.4m	\$2.6m	\$2.8m	\$3.0m	\$3.0m



Other Revenue (Transmission)

Other Revenue projections are higher than recent actual Other Revenues:

Year	Other Rev
2011	[\$6.3m]
2012	\$12.5m
2013	\$9.0m
2014	\$8.0m
2015	\$7.4m
2016 (Rate)	\$10.1m



Other Revenue (Transmission)

- Other Revenues are composed of all transmission related sales except for NITS and firm point-to-point
- Downward trend primarily due to decreases in short-term and non-firm sales
- Although we need to adjust our projections, we need a balanced approach similar to purchase power
- Reduce Other Revenue by approximately \$1.3m a year to \$8.8m and reassess the projection next year



WAPA O&M Changes

Indirect Maintenance Costs

The allocation of indirect costs for transmission line and substation maintenance has changed

This results in a net decrease of costs for Parker-Davis

Information Technology Costs

IT costs are moving from the Western General Expense category to O&M



Generation Charge Determinates

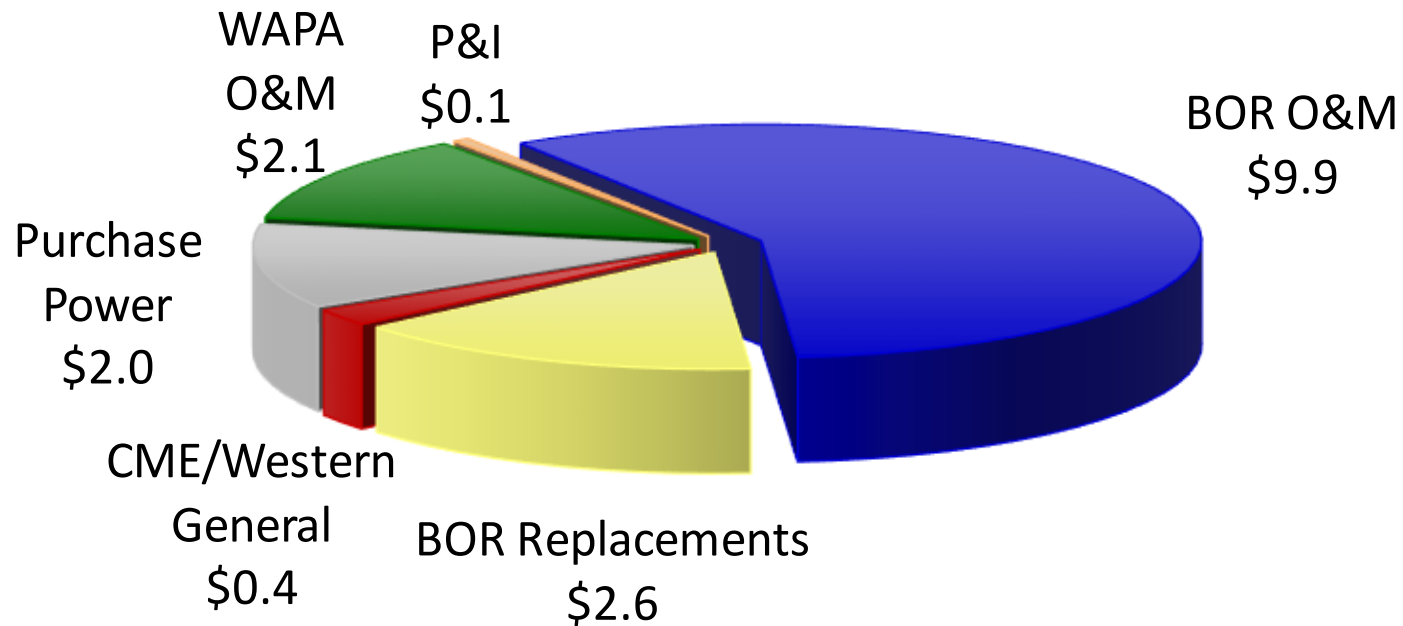
Average Annual Expenses (in millions)

	FY16-20	FY17-21	Change
WAPA O&M	\$2.0	\$2.1	\$0.1
BOR O&M	\$9.5	\$9.9	\$0.4
Purchase Power	\$1.0	\$2.0	\$1.0
CME & Western General	\$0.6	\$0.4	\$(0.2)
BOR Replacements	\$2.7	\$2.6	\$(0.1)
P&I	\$0.1	\$0.1	-
Total	\$15.9	\$17.1	\$1.2



Generation Charge Determinates

Average Annual Expenses (in millions)



Generation Charge Determinates

Average Annual Other Revenue, Carryover, and Reservations (\$ in millions)

	FY16-20	FY17-21	Change
Other Revenue	\$0.2	\$0.3	\$0.1
Carryover	\$1.2	\$1.5	\$0.3
Total	\$1.4	\$1.8	\$0.4
Reservations (GWh)	1,425	1,425	-



Transmission Charge Determinates

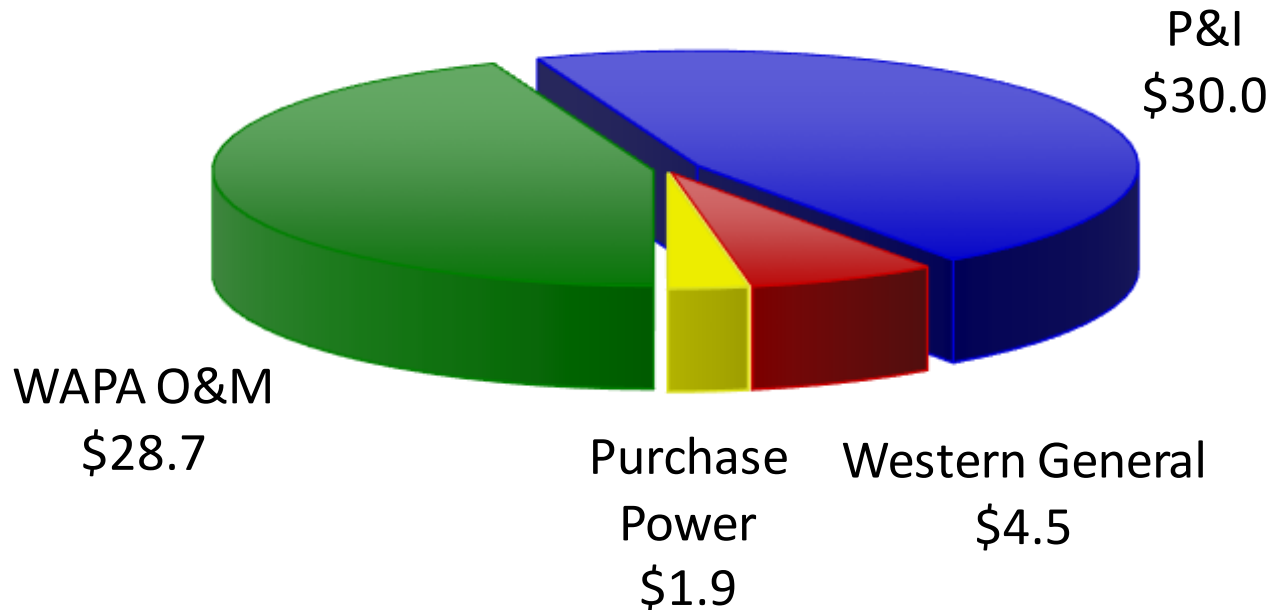
Average Annual Expenses (in millions)

	FY16-20	FY17-21	Change
WAPA O&M	\$28.0	\$28.7	\$0.7
Western General	\$7.6	\$4.5	\$(3.1)
CME & Multi-Project	\$(1.5)	\$(1.2)	\$(0.3)
Purchase Power/Wheeling	\$1.9	\$1.9	-
P&I	\$22.5	\$30.0	\$7.5
Total	\$58.6	\$63.9	\$5.3



Transmission Charge Determinates

Average Annual Expenses (in millions)



Transmission Charge Determinates

Average Annual Other Revenue, Carryover, and Reservations (\$ in millions)

	FY16-20	FY17-21	Change
Other Revenue	\$10.1	\$8.8	\$(1.3)
Carryover	\$4.1	\$4.7	\$0.6
Total	\$14.2	\$13.5	\$(0.7)
Reservations (MW)	2,760	2,804	44



Preliminary FY 2017 Charges

	FY16 (current)	FY17 (proposed)	Change	
Energy (mills/kWh)	5.10	5.37	0.27	5%
Capacity (kW-Month)	\$2.23	\$2.35	\$0.12	5%
Composite w/o Tran (mills/kWh)	10.19	10.73	0.54	5%

Firm Tran (kW-Month)	\$1.34	\$1.50	\$0.16	12%
NITS Revenue Requirement	\$43.6m	\$48.5m	\$4.9	12%



Optional Restructuring of Principal

- Last year, we deferred the planned FY16 principal payment to mitigate a transmission charge increase from 16% to 5%
- The deferred payment saved \$4m in the FY16 rate calculation but restructured future payments increasing interest by \$5.5m or 0.9% over the 40-50 year repayment period
- Although a short-term strategy, if necessary we can again defer the upcoming principal payment and spread that principal across future periods



Optional Restructuring of Principal

- Rather than deferring the entire payment, we recommend some level of payment be made to minimize interest costs and increases next year
- If restructuring, a 50% deferral of principal would cost approximately \$3m over the 40-50 year repayment period but mitigate the increase to the FY17 charge:

	FY17 Charge (proposed)	Change from FY16 Charge	
100% Principal Payment	\$1.50	\$0.16	12%
50% Principal Payment	\$1.43	\$0.9	7%



Questions/Thoughts



Next Steps

- Information regarding the P-DP rates and charges to be posted on Western's website:

<https://www.wapa.gov/regions/DSW/Rates/Pages/parker-davis-rates.aspx>

- Generation costs finalized at Advancement of Funds Annual Funding Board - 7/21/2016
- Proposed charges will be finalized in July/August and become effective for the October 2016 service month



WAPA Contacts

Florence Brooks

602-605-2479

brooks@wapa.gov

Scott Lund

602-605-2442

slund@wapa.gov

